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Product Brief

B2B Food Market Brief

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Report Highlights:

Although in the beginning stages, the Korea B2B food market continues to expand as does Korea's B2C food market. Explosive Internet usage in Korea has fostered this growth. Many of Korea's major conglomerates (*chaebols*) are moving to the B2B platform to streamline this market's very complex, multi-layered distribution system, to increase global sourcing opportunities, and to effect cost savings. With more and more Korean companies adopting B2B sourcing, they continue to search for global partners as suppliers. While the B2B food market poses challenges unto itself, opportunities for US food suppliers using this mode are promising.

Includes PSD changes: No
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I. Market Summary

Koreans have quickly migrated to the Internet and exhibit a greater acceptance of e-commerce than many other people in the world. Korea has already surpassed Japan and Singapore as well as, several major western countries in the number of adults connecting monthly to the Internet¹. The Korean B2B market is growing rapidly, with B2C commerce following quickly behind. Encompassing mostly electronics and home appliances, the Korean B2B market totaled \$15.9 billion in 2000, a 78% increase compared to the previous year. The B2B channel is emerging as an integrated distribution system for many sectors. Several B2B businesses both at the wholesale and retail levels are already operating in the market and many more are likely to enter. According to the Electronic Commerce Research and Development Association, 25 of Korea's 30 largest conglomerates have e-business plans in place. Large conglomerates like LG and POSCO have formed B2B consortiums, gaining both "online" and "offline" advantages. Major benefits of utilizing B2B include lowered logistical costs, the reduction, and in some cases, elimination of intermediaries, a streamlined procurement process, and the realization of improved economies of scale, especially when implemented throughout the entire supply chain.

Contrary to Korea's massive number of urban dwellers, the many small farming households which produce the majority of Korea's domestically grown food, are still limited users of the Internet. However, a few large food companies are quickly moving into the B2B format. For example, the LG subsidiary, Our Home Co., the market leader in the institutional feeding sector, has adopted a B2B bidding system for procuring food and non-food items. This has resulted in Our Home achieving double digit cost reductions. In addition, three other institutional feeding businesses have partnered with two major family restaurant chains to launch the B2B business, Foodmercer.com, which procures food materials collectively for the group. Another consortium formed recently is globalexchange.com. With the liberalization of beef in January of 2001, B2B trading in the meat market is expected to climb as well. While the B2B food market poses challenges unto itself, Korea's growing demand for high quality, fresh and processed foods and ingredients brings promising opportunities for US food suppliers using the B2B mode.

Advantages

- US food products compete well in terms of price, quality, and steady supplies
- Standardized packaging of US products holds strong appeal to Korean partners
- Strong demand for US food products in Korea
- No time/regional boundaries to trading
- Improved efficiency of procurement for both buyer and seller
- Several Korean IFFS companies have already entered the B2B market

Challenges

- Lack of statistics/information on the Korean B2B and even B2C food markets
- Domestic alliances and strong government support hard to compete against
- Tradition of complex/multi-layered distribution takes time to overcome
 - B2B/B2C still unsettled as development continues, and as companies merge
- Limited sites in English require increased language support

¹ Taylor Nelson Sofres, "Global eCommerce Study of 27 Countries"

II. Road Map for Market Entry

A. Entry strategy

US suppliers should be aware that tariff, labeling, ingredient and other import regulations are very complicated and change frequently in Korea, often without prior notice. Many tariffs and taxes are implemented to protect domestic food suppliers. While government negotiations to overcome tariff and other trade barriers are ongoing, changes in trade regulations are expected to lag behind e-commerce developments. Further, B2B commerce is developing various online tariff and custom tools to manage traditional aspects of trading like financing, logistics, Letters of Credit, inspections, and customs clearance, but for the time being, most of these tasks need to be handled through traditional methods or by partnering with service firms like banks, and IT developers. A competent importer is often the best resource on these ever changing requirements and in assisting with various clearance aspects.

Forming partnerships or joining existing alliances with Korea food companies which currently employ B2B commerce would be the easiest way to enter this B2B market. Many large food companies, such as Our Home Co., Cheiljedang, Everland Co., are already in the food processing and/or institutional feeding food service market and are trying to connect their businesses for B2B food purchasing. Since companies like these have stable market positions and highly developed, broad based distribution nation wide, alliances with them helps US exporters to penetrate this market. In addition to the large *chaebols*, foreign food franchises such as TGIFridays, and the major international five star hotels like Marriott and Sheraton are possible alliance targets for US food suppliers.

B. Industry profile

Korea scores strongly in the e-commerce area when compared to other major countries worldwide. In a comprehensive measure of e-commerce activity, fully 67% of all Korean users have engaged in, or have considered engaging in, Internet-related shopping. However, the B2B food market in Korea is in its beginning stages compared to other industries.

Large domestic companies are rapidly investing into the market based on their offline know-how and expertise. But, for the moment, they are concentrating on the overall B2B market, rather than on the B2B food market specifically. Product margins are relatively low in the B2B food market. Recent research conducted by the Korea Chamber of Commerce and Industry(KCCI) shows that 63.5% of online shopping malls, including both B2B and B2C, record monthly sales of less than US\$ 5,000. Furthermore, the financial capability and quality of human resources in this area are relatively undeveloped. Companies with an initial capital investment of less than US\$ 100,000 account for 70.1% of total online companies. Among the companies surveyed, 71.4% recorded minus sales in 1999. Yet, the trend in the B2B/B2C food market reflects increasing investments. This is especially true in the area of processed food products, ingredients, red meat, and seafoods.

Most of the rapid investment into the B2B Food market is by large domestic corporations. Many large companies, such as Samsung, LG, Daesang, and Pulmuwon, are quickly joining the B2B

market. Another Korean B2B, Foodmerce.com is the first Korean food material trading site to develop a network not only with many popular franchise restaurants such as TGI Fridays, Marche, and Pietro, but to sign a joint marketing contract with Globalfoodexchange.com, a global food portal.

The Korean government keeps increasing supports for domestic firms enabling them to enter or partner in the B2B marketplace. The Department of Planning and Budget plans to increase the B2B support budget to US\$ 7 million in 2001, a five fold increase over 2000. Local governments are also prompting small and medium farms to be more active in the B2B and B2C markets.

The increase in global portals, and particularly those in Asia such as Asiansources.com further promulgated development of the B2B market in Korea. CJ Corporation, a major Korean *chaebol* has developed the web site, dreammart.com which not only lists foods, but pharmaceuticals and other items.

III. Competition

Government support of Korean B2B and B2C market development gives Korean firms an edge over US suppliers trying to enter this market. In a recent move to update the existing distribution system, the Korean government sees renovation via e-commerce as a key issue for food industry policy. Sensing the importance of the online food industry, the government is building an information network to serve thousands of small and medium size farms to develop their own web sites for individual online businesses. The ultimate goal is to link these Korean suppliers with online shoppers. While B2B and B2C food marketing is increasing in Korea, and while the government is supporting the linking of farmers directly with shoppers through online sites, Korea remains about 70% dependent on imported foods. As such, despite these domestic e-commerce market developments, food processors, restaurants, franchises, and the institutional feeding companies will still be reliant on sourcing food and food products from abroad, be it in the traditional fashion or through B2B.

Lastly, the investment of global B2B companies, such as alibaba.com, has been already started in Korea. They are investing into the Korea market by setting up affiliated companies inside Korea based on a variety of categories. Since their awareness is already quite high, their market share is expected to grow fast.

IV. Market prospects

There are not many global companies currently active in the Korean B2B market, especially in the B2B food market, so competition is limited presently. Furthermore, the number of large domestic companies that are heavily investing the B2B food market is small since most Korean *chaebols* are presently focused first on their electronics, IT, or other high tech businesses. The US suppliers' ability to mass produce high quality food items at reasonable prices combined with highly sophisticated production facilities and strong online capabilities offers the right mix for success in this market.

Additionally, more and more Korean food importers are looking for B2B suppliers. The newly emerging Korean B2B food market places US suppliers in a favorable position for doing B2B with Korea.

V. List of Korean Food Websites

Korean Food B2B/B2C Websites

Website	Type	English	Comment
www.cjb2b.co.kr	Food B2B	No	Run by Cheiljedang. Registry required.
www.foodmerce.com	Food B2B	No	Joint marketing and purchasing of food materials with Global Food Exchange. Registry required.
www.indusfood.com	Food B2B	No	International food trading service in cooperation with Industrade.com. Registry required.
www.meatmart.com	Meat B2B	Yes	Online auction. Registry required.
www.ideli.co.kr	Meat B2B	No	Online auction and trading. Registry required.
www.dreamxfarm.com	Meat B2B	Yes	Offline intra, B2B auction, information on imported meat, pursuing joint promotion with foreign companies.
www.kogi.co.kr	Meat B2B/B2C	No	Online delivery of imported meat from US, Canada, Australia and Denmark.
www.meatprice.com	Meat B2B	Yes	Global e-market network, one-stop total B2B service, auction. Registry required.
www.fishmajor.com	Seafood B2B	Yes	Imports/exports of seafood. Building an Asian seafood community.
www.8484.com	Food B2B/B2C	No	Mainly fruits, but other food products available. Registry required.
www.corevan.com	B2B	No	Online purchasing for domestic hotels.
www.ecplaza.net	B2B	Yes	Korean run site.
http://allbtob.co.kr	B2B/B2C	No	Online auction, shopping mall and total B2B. Registry required for B2B.
www.b2bauction.co.kr	B2B	No	B2B auction, meat and science products. Registry required.
www.proline.co.kr	B2B/B2C	Yes	Electronic commerce ISP
http://kr.alibaba.com	B2B portal	Yes	Alibaba-Korea - global trade service. Registry required
www.biztobiz.co.kr	B2B	Yes	Portal. Registry required.
www.fooddaily.co.kr	Food news	Yes	Recent information about the Korean food market
www.foodfood.co.kr		No	Food trading, food news, food polls, recipes
www.healthline.co.kr	B2C	No	Run by Daesang. Health products.

VI. List of Korean Portals

List of Korean Portals for Trade Information & Support

Name	Homepage	Supported Portals	Comments
Korea Trade Network (KTNET)	www.ktnet.co.kr	www.ecplaza.net	Governmental trade & market information. English available.
Korea International Trade Association (KITA)	www.kita.or.kr	www.ec21.com	Governmental trade support & overseas market information. English available.
Korea Trade & Investment Promotion Agency (KOTRA)	www.kotra.or.kr	n/a	Trade related support for domestic & foreign companies. Regional offices in many countries. English available
Small & Medium Industry Promotion Corporation (SMIPC)	www.smipc.or.kr	www.smipc.or.kr	B2B portal for small & medium size companies. English available, but registry required.
DreamMart	www.dreammart.com	www.dreammart.com	Run by CJ Corporation - online import/export, global links with international traders. English available.

For further information contact:

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